PHOENIX SERVICES, INC.
FINANCIAL STATEMENTS
with
INDEPENDENT AUDITORS' REPORT
YEAR ENDED JUNE 30, 2005

CONTENTS

Wood · Richards
AND ASSOCIATES P.C.

Royce J. Richards, J. D., CPA
Lynn J. Wood, CPA

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Phoenix Services, Inc.
Clearfield, Utah

We have audited the accompanying statement of financial position of Phoenix Services, Inc. (a non-profit corporation) as of June 30, 2005 and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Phoenix Services, Inc. as of June 30, 2005, and the changes in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 18, 2006 on our consideration of Phoenix Services' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Wood Richards & Associates

Ogden, Utah
January 18, 2006

CERTIFIED PUBLIC ACCOUNTANTS

2490 Wall Avenue Ogden, Utah 84401 Phone (801) 621-0440 Fax (801) 399-9264

PHOENIX SERVICES, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2005

ASSETS

Current Assets:	
Cash and cash equivalents	$ 2,607
Accounts receivable (net of allowance of $3,611)	109,106
Prepaid expenses	783
Total Current Assets	112,496
Property and Equipment	
Land	87,477
Building	462,047
Furniture, fixtures, equipment and software	82,825
Automobiles	12,395
	644,744
Less: Accumulated depreciation	(155,523)
Net Property and Equipment	489,221
Other Assets:	
Cash held in escrow	77,132
Bond issuance cost (net of amortization)	23,592
Total Other Assets	100,724
Total Assets	**$ 702,441**

LIABILITIES AND NET ASSETS

Current Liabilities:	
Accounts payable	$ 31,118
Accrued bond interest	18,363
Accrued expenses	64,962
Current portion of long-term debt	21,677
Total Current Liabilities	136,120
Long-Term Debt	
Notes payable	6,178
Bond payable	570,000
Less: Current Portion	(21,677)
Total Long-Term Debt	554,501
Net Assets - Unrestricted (Deficit)	
Restricted for debt service	55,759
Unrestricted (Deficit)	(43,939)
Total Liabilities and Net Assets	**$ 702,441**

The accompanying notes are an integral part of these financial statements.

PHOENIX SERVICES, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

Support	
Services Income	$ 1,406,520
Contributions	23,279
Other	8,404
Total Support	1,438,203
Revenue	
Interest	1,163
Total Revenue	1,163
Total Public Support and Revenue	1,439,366
Expenses	
Program services	1,235,145
Supporting services	224,764
Total Expenses	1,459,909
Change in Net Assets	(20,543)
Net Assets, Beginning	(23,396)
Prior Period Adjustment	55,759
Net Assets, Beginning - Restated	32,363
Net Assets, Ending	$ 11,820

The accompanying notes are an integral part of these financial statements.

PHOENIX SERVICES, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2005

Cash Flows From Operating Activities		
Change in Net Assets	$	(20,543)
Adjustments to reconcile net cash provided by operating activities:		
Depreciation		26,738
Amortization		1,388
Disposal of assets		5,447
Changes in assets and liabilities:		
Accounts receivable		30,926
Prepaid expenses		(83)
Accounts payable		10,855
Accrued bond interest		(2,774)
Accrued expenses		(18,197)
Net Cash From Operating Activities		33,757
Cash Flows From Investing Activities		
Acquisition of property and equipment		(1,500)
Net Cash from Investing Activities		(1,500)
Cash Flows From Financing Activities		
Transfers to escrow		(15,550)
Payments on notes payable		(4,754)
Payments on bond payable		(15,000)
Net Cash From Financing Activities		(35,304)
Net Increase (Decrease) in Cash and Cash Equivalents		(3,047)
Cash and Cash Equivalents at Beginning of Year		5,654
Cash and Cash Equivalents at End of Year	$	2,607
Total interest paid during the year		51,403

The accompanying notes are an integral part of these financial statements.

PHOENIX SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

A. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Phoenix Services, Inc. (the Organization) is a non-profit Utah Corporation providing service to people with disabilities, particularly head trauma injuries. The clients are individually placed in apartments or houses in the community. The Organization supervises the clients and helps them be as self-sustaining as possible.

The Organization follows the generally accepted accounting principles for not-for-profit organizations. The following is a summary of the significant accounting policies.

Financial Statement Presentation- The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets as applicable. In addition, the Organization presents a statement of cash flows.

Revenue Recognition- The Organization has a contract with the State of Utah to provide the services discussed above. The State is billed for the services provided by the Organization to patients. Revenue received from the State is recorded as unrestricted support. Revenues are recognized when services are provided and the State is billed.

Contributions and Donated Services- If and when received, contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Restricted contributions are reported as temporarily or permanently restricted support and are then reclassified to unrestricted net assets upon expiration of the time restriction or appropriate use of the assets.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Donated materials and equipment are reflected as contributions at their estimated values at date of receipt.

The Organization has received many hours of donated services from volunteers which have not been recorded because no objective basis is available to measure such value and because they do not meet the requirements for recording in the financial statements.

Promises to Give- Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

PHOENIX SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

A. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Accounting (continued)

Allocated Expenses- The costs of providing the various programs and services have been summarized on a functional basis in the schedule of functional expenses. Accordingly, certain costs have been allocated among the programs and services benefited.

Property and Equipment- The Organization follows the practice of capitalizing all expenditures for land, buildings, and equipment in excess of $500. Donated assets are capitalized at fair value when the value exceeds $1,000. Depreciation is computed using an accelerated method over the estimated useful lives of the respective assets, which range from five to thirty years.

Income Taxes- The Organization is a tax-exempt entity under Section 501(c)(3) of the Internal Revenue Code. Therefore, no provision for Federal or State income taxes has been made.

Cash and Cash Equivalents- For purposes of the statement of cash flows, the Organization considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. Money market funds are considered cash equivalents.

Accounts Receivable – Accounts are stated at the amount management expects to collect from outstanding balances. Management provides for probably uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. The allowance for doubtful accounts at June 30, 2005 was $3,611. Changes in the valuation allowance have not been material to the financial statements.

Estimates- The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Amortization of Bond Issuance Costs- Bond issuance costs are amortized on the straight-line basis over 25 years, the life of the bond. Amortization expense for the year ended June 30, 2005 was $1,388.

B. CONCENTRATION OF SERVICE REVENUE AND ACCOUNTS RECEIVABLE

The Organization is subject to a concentration of credit risk relating to services income and trade accounts receivable. The Organization has a contract with the State of Utah to provide services to individuals with traumatic brain injuries. For the year ended June 30, 2005 $1,292,438 or 92% of service revenue came from the State of Utah. At June 30, 2005, accounts receivable relating to these service revenues was $104,653 or 93% of accounts receivable.

C. LONG-TERM LIABILITIES

Revenue Bonds Payable- On May 22, 1997 the Organization took part in an issuance of a Mortgage Revenue Bond Series 1997, under the UARF 501(c)(3) Trust Cooperative Financing Program. The total face amount of these bonds was $2,660,000. The Organization's share of this amount was $650,000. This is a 25-year bond with an interest rate of 7.7%. The net proceeds of $615,306 (after reduction of for $34,694 of bond issuance costs) were used to establish two money market accounts, discussed below.

Service Loan Account – Zions Bank Trust and Investment Management- This account has been established to make bond payments as they come due. The Organization pays into the account on a monthly basis an equal portion of the total annual debt service and service fees estimated by Zions Bank. Every year bond payments are withdrawn on February 15th and August 15th. The February payment consists only of interest. The August payment consists of principal and interest.

The following table shows debt service requirements.

Year Ended June 30,	Principal	Interest	Total Debt Service
2006	$ 15,000	$ 43,313	$ 58,313
2007	15,000	42,158	57,158
2008	20,000	40,810	60,810
2009	20,000	39,270	59,270
2010	20,000	37,730	57,730
Thereafter	480,000	275,275	755,275
	$ 570,000	$ 478,556	$ 1,048,556

C. LONG-TERM LIABILITIES (continued)

Notes Payable are as follows:

Note payable to a bank bearing interest at 9.25%; monthly installments of $229; due September 2005; secured by an automobile.	677
Note payable to a related party bears 0% interest. Although there are no contractual obligations, it is Management's intention to make monthly payments $1,100.	5,500
Total Notes Payable	6,177
Less: current portion	6,177
Notes Payable Long-Term	**$ 0**

Annual maturities of notes payable of June 30, 2005 for each of the next five years are as follows:

Year Ending June 30,	
2006	6,177

D. OPERATING LEASES

The Organization leases office space in three locations: Clearfield, Salt Lake City and Provo, Utah. The Clearfield lease has monthly rental payments of $2,203 and expires November 2006. The Salt Lake City lease has monthly rental payments of $890 and is a month-to-month lease. Rent expense for the year ended June 30, 2005 was $32,955. Future minimum rental payments under these three leases for the year ended June 30, 2005 is $37,116.

E. EMPLOYEE BENEFIT PLAN

The Organization has adopted a 403(b) Thrift Plan for its employees whereby employees can contribute a certain percentage of their compensation. The Organization contributed $0 for the year ended June 30, 2005.

F. RELATED PARTY TRANSACTIONS

The Organization has borrowed $5,500 from a related party. The money was borrowed in order to pay operating expenses in the prior year. The loan had no effect on net income for the year ended June 30, 2005.

G. PRIOR PERIOD ADJUSTMENT

Phoenix Services, Inc. has a trust account at Zions Bank which is held as a reserve for debt obligations. The prior year's financial statements did not include this reserve. The amount is $55,759. The adjustment had no effect on net income for the year ended June 30, 2005.

Wood · Richards
AND ASSOCIATES P.C.

Royce J. Richards, J. D., CPA
Lynn J. Wood, CPA

INDEPENDENT AUDITOR'S REPORT
ON ADDITIONAL INFORMATION

To the Board of Directors
Phoenix Services, Inc.

Our report on our audit of the basic financial statements of Phoenix Services, Inc. for 2005 appears on page 1. We conducted our audit in accordance with auditing standards generally accepted in the United States of America for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Wood Richards & Associates

Ogden, UT
January 18, 2006

CERTIFIED PUBLIC ACCOUNTANTS

2490 Wall Avenue Ogden, Utah 84401 Phone (801) 621-0440 Fax (801) 399-9264

PHOENIX SERVICES, INC.
SUPPLEMENTAL SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2005

	Program Services	Supporting Services	Total Expenses
Salaries and wages	$ 762,764	$ 141,494	$ 904,258
Employee benefits	66,777	15,208	81,985
Payroll taxes	56,343	12,832	69,175
Total	885,884	169,534	1,055,418
Amortization	-	1,388	1,388
Automobile	1,014	-	1,014
Bank fees	-	1,388	1,388
Communication - other	8,065	-	8,065
Dues and subscriptions	1,702	1,702	3,404
Insurance	96,779	-	96,779
Interest	38,903	9,726	48,629
Licenses and permits	1,608	-	1,608
Miscellaneous	11,667	-	11,667
Parenting	70,175	-	70,175
Professional fees	4,119	4,119	8,238
Program rent	32,955	-	32,955
Repairs	3,473	-	3,473
Supplies	38,022	19,457	57,479
Telephone	15,923	3,981	19,904
Training	4,186	-	4,186
Travel	3,101	-	3,101
Utilities	3,655	645	4,300
	335,347	42,406	377,753
Depreciation	13,914	12,824	26,738
Total Expenses	$ 1,235,145	$ 224,764	$ 1,459,909

Wood · Richards
AND ASSOCIATES P.C.

Royce J. Richards, J. D., CPA
Lynn J. Wood, CPA

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Phoenix Services, Inc.
Clearfield, Utah

We have audited the financial statements of Phoenix Services, Inc. (a nonprofit organization) as of and for the year ended June 30, 2005, and have issued our report thereon dated January 18, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Phoenix Services internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Phoenix Services financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

CERTIFIED PUBLIC ACCOUNTANTS

2490 Wall Avenue Ogden, Utah 84401 Phone (801) 621-0440 Fax (801) 399-9264

This report is intended solely for the information and use of the audit committee, management, Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Wood Richards & Associates

Ogden, UT
January 18, 2006

Wood · Richards
AND ASSOCIATES P.C.

Royce J. Richards, J. D., CPA
Lynn J. Wood, CPA

INDEPENDENT AUDITORS' REPORT
STATE OF UTAH LEGAL COMPLIANCE

Phoenix Services, Inc.
Clearfield, Utah

We have audited the financial statements of Phoenix Services, Inc., a nonprofit corporation, for the year ended June 30, 2005, and have issued our report thereon dated January 18, 2006. As part of our audit, we have audited Phoenix Services' compliance with the requirements of the provider contract determined to be a major State assistance program as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2005. Phoenix Services received the following major assistance program from the State of Utah:

DSPD Services

The management of Phoenix Services is responsible for its compliance with the compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about Phoenix Services' compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In our opinion, Phoenix Services Inc. complied, in all material respects, with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to its major State assistance program for the year ended June 30, 2005.

Wood Richards & Associates

January 18, 2006

CERTIFIED PUBLIC ACCOUNTANTS

2490 Wall Avenue Ogden, Utah 84401 Phone (801) 621-0440 Fax (801) 399-9264